

FISCAL NOTE

SB 4 - HB 12

FIRST EXTRAORDINARY SESSION

April 7, 1999

SUMMARY OF BILL: Deletes the present law relating to preventing the evasion of taxes outlined in TCA 67-4-812(c). Replaces it with language that authorizes the commissioner of revenue to do the following in order to prevent tax evasion or to clearly reflect income: 1) distribute, apportion, or allocate gross income, deductions, credits, or allowances between or among any two or more organizations, trades, or businesses, whether or not incorporated and whether or not affiliated, that are owned or controlled by the same interests; 2) require combined reports and the use of a common apportionment formula of any two or more incorporated or unincorporated entities that are owned or controlled by the same owners and engaged in the same or compatible lines of business or providing goods and services to each other; 3) disregard any entity created or transaction made that has no business purpose or is created or made to evade the Tennessee franchise and excise tax or to evade federal taxes resulting in the diminution of the Tennessee franchise and or excise tax; and 4) apply federal taxation concepts, including without limitation, *assignment of income*, *arms length*", and *fair market value* to the dealings between or among persons having close relationships, as identified in the Internal Revenue Code Section 267(b). If a method of tax allocation, computation, or apportionment, or a combined return is required once, it would continue until discontinued or changed by the commissioner or with the commissioner's written consent.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Exceeds \$100,000,000

Estimate is based on projecting franchise and excise tax revenues using average growth rates and comparing those with current projections for franchise and excise tax growth.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director

SB 04 - HB 12

FIRST EXTRAORDINARY SESSION